

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson  
Director  
Utilities Division

*EA for EGJ*

DATE: July 06, 2009

RE: STAFF REPORT FOR EHRENBURG IMPROVEMENT ASSOCIATION'S  
APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-  
02273A-08-0251)

Attached is the Staff Report for Ehrenberg Improvement Association's application for a permanent rate increase. Staff recommends approval of the rate increase application using Staff's recommended rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before July 16, 2009.

EGJ:DRE:kdh

Originator: Darak R. Eaddy

Arizona Corporation Commission

**DOCKETED**

**JUL - 6 2009**

DOCKETED BY	<i>MJ</i>
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Docket No. W-02273A-08-0251

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**EHRENBURG IMPROVEMENT ASSOCIATION**

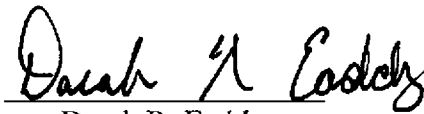
**DOCKET NO. W-02273A-08-0251**

**APPLICATION FOR A  
PERMANENT RATE INCREASE**

**July 06, 2009**

## STAFF ACKNOWLEDGMENT

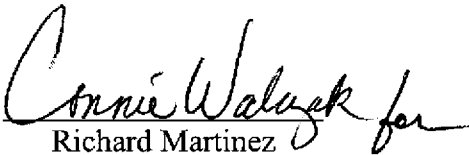
The Staff Report for Ehrenberg Improvement Association, Docket No. W-02273A-08-0251 was the responsibility of the Staff members listed below. Darak R. Eaddy was responsible for the financial review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Katrin Stukov was responsible for the engineering and technical analysis. Richard Martinez was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Darak R. Eaddy  
Public Utility Analyst II



Katrin Stukov  
Utilities Engineer



Richard Martinez  
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY  
EHRENBURG IMPROVEMENT ASSOCIATION  
APPLICATION FOR A PERMANENT RATE INCREASE  
DOCKET NO. W-02273A-08-0251**

Ehrenberg Improvement Association ("Ehrenberg" or "Company") is a non-profit corporation that provides potable water service to customers in the town of Ehrenberg. Ehrenberg provides water services to approximately 311 customers, and its current rates were approved October 9, 1996, per Decision No. 59852.

The Company proposes total operating revenue of \$691,595<sup>1</sup>, an increase of \$430,258, or 164.64 percent over test year revenue of \$261,337, resulting in an operating margin of 58.34 percent. Staff recommends total operating revenue of \$299,570, an increase of \$37,621, or 14.36 percent over the Staff-adjusted test year revenue of \$261,949, resulting in an operating margin of 18.33 percent. The Company's proposed revenues result in an operating income of \$403,460. Staff recommended revenues would result in an operating income of \$54,915.

The Company has proposed an original cost rate base ("OCRB") of \$836,997. The Company's proposed rates would increase the typical 3/4-inch meter residential bill with a median usage of 5,327 gallons from \$20.87 to \$42.72, an increase of \$21.85 or 104.7 percent.

Staff has recommended an OCRB of \$317,489. Staff utilized an operating margin to determine revenue requirement due to Ehrenberg being a non-profit corporation. A rate of return is based on rate base and would allow the Company to earn a return on its investment which is contrary to Ehrenberg's status as a non-profit corporation. Additionally, Ehrenberg's low rate base level would not produce enough revenue utilizing an appropriate rate of return.

Staff's recommended rates would increase the typical 3/4-inch meter residential bill with a median usage of 5,327 gallons from \$20.87 to \$22.59, for an increase of \$1.72 or 8.2 percent.

**Staff Recommendations:**

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule DRE-4, Pages 1 and 2. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

Staff further recommends that the above rates and charges not become effective until the first day of the month after the Company submits to Docket Control documentation from the Commission's Corporations Division that Ehrenberg is in good standing.

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<sup>1</sup> The Association requested total operating revenue of \$691,595 on the amended page 6 of the Association's application. However, the Association's proposed rates and rate structure would actually produce \$724,833 in revenues.

Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the Company file, as a compliance item in this Docket, no later than December 31, 2009, documentation issued by the Arizona Department of Water Resources ("ADWR") indicating that the Company's System Water Plan meets ADWR requirements.

Staff further recommends that the Company record and report accurate data for number of customers in its future Annual Reports, beginning with the 2008 Annual Report filed in 2009.

Staff further recommends that the Company adopt the typical and customary depreciation rates as delineated on Table C in Section H of the attached Engineering Report.

Staff further recommends approval of separate installation charges for the service line and meter installation charges as delineated in Table D in Section I of the attached Engineering Report.

Staff recommends approval of the Company's curtailment tariff in this proceeding.

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## **SCHEDULES**

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## **ATTACHMENT**

Engineering Report .....	A
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**Fact sheet**

**Type of Ownership:** Arizona Non-Profit Corporation.

**Location:** The Company provides potable water service to customers in the town of Ehrenberg, located at the state line between Arizona and California and on Interstate Highway 10, in La Paz County, Arizona.

**Active Management Area:** The Company is not located in an Active Management Area.

**Rates:** Permanent rate increase application filed: May 15, 2008. The application became sufficient on February 19, 2009.

**Current Rates:** Decision No. 59852, dated October 9, 1996.

**Prior Test Year:** December 31, 1995.

**Current Test Year Ended:** December 31, 2007.

**Metered Rates:**

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge			
5/8 X 3/4 – inch meter	\$ 18.75	\$ 23.00	\$ 15.00
3/4 – inch meter	\$ 18.75	\$ 23.00	\$ 15.00
1 – inch meter	\$ 24.75	\$ 30.00	\$ 20.00
1 - 1/2 – inch meter	\$ 27.75	\$ 33.00	\$ 25.00
2 – inch meter	\$ 47.75	\$ 72.00	\$ 50.00
3 – inch meter	\$ 100.00	\$ 120.00	\$ 100.00
4 – inch meter	\$ 125.00	\$ 150.00	\$ 175.00
6 – inch meter	\$ 150.00	\$ 304.00	\$ 300.00
8 – inch meter	\$ 250.00	\$ 529.00	\$ 525.00
Gallons in minimum	4,000	0	0
Per 1,000 Gallons for all usage	\$1.60	N/A	N/A
Tier One from 1 gallon to 4,000 gallons	N/A	\$ 2.90	N/A
Tier Two from 4,001 gallons to 6,000 gallons	N/A	\$ 4.06	N/A
Tier Three all gallons over 6,000	N/A	\$ 5.68	N/A

**Fact Sheet (Continued)**

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Tier One from 1 gallon to 3,000 gallons	N/A	N/A	\$1.25
Tier Two from 3,001 gallons to 8,000 gallons	N/A	N/A	\$1.65
Tier Three all gallons over 8,000	N/A	N/A	\$1.90

**Typical 3/4-inch residential bill:**

Average use (10,781 gallons)	\$29.60	\$69.88	\$32.28
Median use (5,327 gallons)	\$20.87	\$42.72	\$22.59

**Customers:**

Number of customers in prior test year (12/31/95): 219

Average Number of customers in the current test year (12/31/07): 311

Current test year customers by meter size:

5/8 X 3/4 – inch	0
3/4 – inch	179
1 – inch	87
1 1/2 – inch	11
2 – inch	15
3 – inch	7
4 – inch	2
6 – inch	2
8 – inch	1

**Notifications:**

An affidavit of mailing of the customer notification was filed on May 4, 2008.

Number of opinions filed against the rate increase application: 33.

Number of customer complaints filed against the Company from January 1, 2006 to June 8, 2009: 0.

### **Summary of Filing**

The test year results as adjusted by Utilities Division Staff ("Staff"), for Ehrenberg Improvement Company ("Ehrenberg" or "Company") reflect total operating revenue of \$261,949 and operating income of \$17,295 for an operating margin of 6.60 percent as shown on Schedule DRE-1. The original cost rate base ("OCRB") as adjusted by Staff is \$317,489.

Ehrenberg's proposed rates would produce total operating revenue of \$691,595<sup>2</sup> and operating income of \$403,460, or a 58.34 percent operating margin. The Company's proposed rates would increase the typical 3/4-inch meter residential bill with a median usage of 5,327 gallons from \$20.87 to \$42.72, an increase of \$21.85 or 104.7 percent, as shown on Schedule DRE-5.

Staff recommended rates would produce total operating revenue of \$299,570 and operating income of \$54,915, or an 18.33 percent operating margin. Staff recommends an OCRB of \$317,489. Staff's recommended rates would increase the typical 3/4-inch meter residential bill with a median usage of 5,327 gallons from \$20.87 to \$22.59, for an increase of \$1.72 or 8.2 percent.

The Company reports that its proposed rate increase is necessary at this time due to rising operating expenses, creating difficulty for the Company to meet its financial obligations. The Company's financial difficulty is further exacerbated by Ehrenberg failing to file for a rate increase since 1996. The Company also noted that much of its equipment and plant is in need of upgrading and/or replacement, and that there is a critical need for additional funds to hire qualified employees/operators.

During the test year ended December 31, 2007, Ehrenberg provided potable water service to approximately 311 customers.

The Company is registered as an Arizona non-profit corporation with the Corporations Division of the Arizona Corporation Commission ("Commission").

### **Company Background**

Ehrenberg is an Arizona non-profit corporation that provides potable water service to customers in the town of Ehrenberg, located at the state line between Arizona and California and on Interstate Highway 10, in La Paz County, Arizona. The Company's service territory encompasses approximately 3,975 acres.

The Company received its Certificate of Convenience and Necessity ("CC&N") in Commission Decision No. 48702, dated February 9, 1978. Ehrenberg's current rates were

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<sup>2</sup> The Association requested total operating revenue of \$691,595 on the amended page 6 of the Association's application. However, the Association's proposed rates and rate structure would actually produce \$724,833 in revenues.

established in Decision No. 59852, dated October 9, 1996. Ownership and control of the water utility operations of the Company was assumed by the Ehrenberg Utilities Association ("EUA") in 1996. Ehrenberg's board of directors disputed the transfer of ownership and the assets of the Company. In 2001, the La Paz County Superior Court decided for Ehrenberg and found that the transfer of the water utility operations to EUA from Ehrenberg was invalid. Operational control was resumed by Ehrenberg in 2003.

On May 15, 2008, Ehrenberg filed an application for a permanent rate increase. On June 16, 2008, Staff filed a Letter of Deficiency. An additional Letter of Deficiency was filed on August 14, 2008. Staff issued a Letter of Sufficiency on February 9, 2009. The Company provided evidence in its application that customers had been notified of the filing of the rate case by mail on May 4, 2008.

### **Consumer Services**

A review of the Consumer Services Section database from January 1, 2006, through June 8, 2009, revealed that there were 33 opinions filed opposing the rate increase request. The review revealed that during the same time period there had been no complaints filed against the Company.

### **Compliance**

The Utilities Division Compliance Section shows no outstanding compliance issues.

Ehrenberg is current on its property and sales tax payments.

Ehrenberg is not in good standing with the Corporations Division of the Commission. The Company has not filed its 2008 Annual Report due on April 29, 2009, with the Corporations Division as of June 8, 2009.

### **Engineering**

The water system was field inspected on August 15, 2008, by Katrin Stukov, Staff Utilities Engineer, in the accompaniment of Joseph Leach, General Manager; Gus Alcala, Assistant Water Operator; Christina Balvanz, President of the Board; Paul Linker, Vice President of the Board; Denise Angel, Vice President at Large of the Board. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report (Attachment A).

Ehrenberg is not located in an Arizona Department of Water Resources ("ADWR") designated Active Management Area ("AMA"). The ADWR has determined that the Company's water system is in compliance with the reporting requirements, and upon completion of its review of the Company's System Water Plan, which includes a Water Supply Plan,

Drought Preparedness Plan and Water Conservation Plan, ADWR will issue documentation stating whether or not the System Water Plan filed meets ADWR requirements.

The Company acknowledged discrepancies in number of customers previously reported in Water Use Data in its Annual Reports and explained that reported customer data included vacant, turn-off and collection accounts (instead of the actual customers that used water). Due to the unknown "actual" number of customers, growth projection is based on customer meters data obtained from the Company's Annual Reports. It is projected that the Company could have approximately 350 connections by 2012.

Staff has reviewed the curtailment tariff submitted by Ehrenberg with its rate application and has determined that this tariff generally conforms to the sample tariff found posted on the Commission's website.

### **Rate Base**

Staff's adjustments decreased Ehrenberg's proposed rate base by \$519,508 from \$836,997 to \$317,489 as shown on Schedule DRE-2, page 1. Details of Staff's adjustments are discussed below.

### **Plant in Service**

Staff's adjustments to plant in service resulted in a net decrease of \$428,751, from \$1,852,621 to \$1,423,870 as shown on Schedule DRE-2, page 2. A significant portion of Staff's decrease to plant in service was the result of Staff's adjustments to reflect the plant in service balances established in the Company's last rate case, by Decision No. 59852.

Due to the lack of records transferred from EUA to the Company for the 1996 to 2002 time period, documentation on plant additions for these years were non-existent.

Structures and Improvements - Adjustment "a" increases the structures and improvements account by \$24,949, from \$23,238 to \$48,187 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$43,222 balance established by Decision No. 59852, a \$5,065 increase in structures and improvements supported by documentation, and a \$100 retirement of plant.

Wells and Springs - Adjustment "b" increases the wells and springs account by \$8,221, from \$0 to \$8,221 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$8,221 balance established in Decision No. 59852.

Pumping Equipment - Adjustment "c" decreases the pumping equipment account by \$72,697, from \$103,720 to \$31,023 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$14,670 balance established in Decision No. 59852, a \$16,753 increase in the pumping equipment account that was supported by documentation, and a \$400

retirement of plant.

Water Treatment Equipment - Adjustment "d" decreases the water treatment equipment account by \$225,260, from \$455,634 to \$230,374 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$223,039 balance established in Decision No. 59852 and a \$7,335 increase in the water treatment equipment account supported by documentation.

Solution Chemical Feeders - Adjustment "e" decreases the solution chemical feeders account by \$32,329, from \$34,857 to \$2,528 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects Staff's removal of unsupported plant additions.

Storage Tanks - Adjustment "f" decreases the storage tanks account by \$780,458, from \$1,068,267 to \$287,809 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$287,809 balance established in Decision No. 59852.

Transmission and Distribution Mains - Adjustment "g" increases the transmission and distribution mains account by \$408,159, from \$85,854 to \$494,013 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$473,113 balance established in Decision No. 59852 and a \$20,900 increase for transmission and distribution mains supported by documentation submitted by the Company.

Services - Adjustment "h" increases the services account by \$77,205, from \$0 to \$77,205 as shown on Schedule DRE-2, pages 2 and 3. Staff's adjusted amount reflects the \$76,590 balance established in Decision No. 59852 and a \$615 increase in the services account supported by documentation.

Meters and Meter Installations - Adjustment "i" increases the meters and meter installations account by \$103,348 from \$0 to \$103,348 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$61,990 balance established in Decision No. 59852 and a \$41,358 increase in meters and meter installations supported by documentation.

Hydrants - Adjustment "j" increases the hydrants account by \$64,367 from \$0 to \$64,367 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$61,759 balance established in Decision No. 59852 and a \$2,608 increase in the hydrants account supported by documentation.

Office Furniture & Equipment - Adjustment "k" increases the office furniture and equipment account by \$832, from \$4,854 to \$5,686 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$4,331 balance established in Decision No. 59852 and a \$1,355 increase in office furniture and equipment supported by documentation.

Computers & Software - Adjustment "l" increases the computers and software account by \$1,478, from \$0 to \$1,478 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects a \$1,478 increase in the account that was supported by documentation submitted by the

Company.

Transportation Equipment - Adjustment "m" decreases the transportation equipment account by \$12,885, from \$63,380 to \$50,495 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$2,050 balance established in Decision No. 59852 and a \$48,445 increase in transportation equipment supported by documentation.

Tools Shop & Garage Equipment - Adjustment "n" increases the tools shop and garage equipment account by \$2,711, from \$5,621 to \$8,332 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$1,773 balance established in Decision No. 59852 and a \$6,559 increase in tools, shop and garage equipment supported by documentation.

Laboratory Equipment - Adjustment "o" increases the laboratory equipment account by \$1,255, from \$2,396 to \$3,651 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects a \$3,651 increase in the account that was supported by documentation submitted by the Company.

Communication Equipment - Adjustment "p" increases the communication equipment account by \$732, from \$0 to \$732 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects a \$1,032 increase in the account that was supported by documentation submitted by the Company and \$300 in retirements.

Miscellaneous Equipment - Adjustment "q" increases the miscellaneous equipment account by \$1,622, from \$0 to \$1,622 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects a \$1,622 increase in the account that was supported by documentation submitted by the Company.

### **Other Rate Base Items**

#### **Accumulated Depreciation**

Staff decreased accumulated depreciation by \$264,156 from \$990,511 to \$726,355 as shown on Schedule DRE-2, pages 1 and 5. The decrease is based upon several Staff adjustments made to plant in service account balances and the addition of depreciation expense to accumulated depreciation since the last rate case.

#### **Contributions in Aid of Construction**

Staff increased contributions in aid of construction ("CIAC") by \$1,006,379, from \$20,000 to \$1,026,379 as shown on Schedule DRE-2, page 1 and 6. The adjustment reflects Staff's calculation of CIAC based upon the balance established in Decision No. 59852 of \$1,076,000, \$20,000 in CIAC additions, and a retirement of \$69,621.

### **Amortization of CIAC**

Staff increased amortization of CIAC by \$625,938, from \$1,185 to \$627,123 as shown on Schedule DRE-2, page 1 and 6. The adjustment reflects Staff's calculation of CIAC amortization based upon the balance established in Decision No. 59852 of \$319,013 and Staff's calculation of the CIAC account balance.

### **Working Capital**

Staff's adjustments to working capital resulted in a net increase of \$25,528, from \$0 to \$25,528 as shown on Schedule DRE-2, pages 1 and 7, as a result of increasing cash working capital.

Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses, plus one twenty-fourth of purchased power and purchased water expenses.

### **Operating Income Statement**

#### **Operating Revenue**

Staff's adjustment to operating revenue resulted in an increase of \$612 from \$261,337 to \$261,949, as shown on Schedule DRE-3, pages 1 and 2.

Adjustment 1 reflects total operating revenues based on the Company's submitted bill counts.

#### **Operating Expenses**

Staff's adjustment to operating expenses resulted in a decrease of \$43,480 from \$288,135 to \$244,655 as shown on Schedule DRE-3 page 1. The adjustments are explained below.

Salaries and Wages - Adjustment 2 increases salaries and wages by \$20,637 from \$84,657 to \$105,294 as shown on Schedule DRE-3, pages 1 and 2. The increase reflects Staff's calculation of salaries and wages expense based on the documentation submitted by the Company and several Staff adjustments.

In the course of the audit, Staff discovered the Company had been understaffed for several years and the current Company staff was working significantly reduced hours in order to maintain a lower salaries and wages expense. The Company's business office is currently open only 4 hours a day and the workforce has been reduced to the bare minimum.

Additionally, the level of expertise, training, and skills the current Company staff possessed was inadequate given the size of the Company and the complexities that come with



operating a larger utility. Ehrenberg's strategies and policies to keep salaries and wages lower has impacted the level of service it can offer customers and extended the time to process this rate application. Staff increased the salaries and wages expense by 15 percent to address these deficiencies. Staff's adjustment increased salaries and expenses by \$13,734.

Staff also adjusted the balance for salaries and wages expense to correct the Company's erroneously recording \$6,903 in payroll taxes in account 408 taxes other than income.

Purchased Power - Adjustment 3 decreases purchased power expense by \$265, from \$19,373 to \$19,108 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of purchased power expense based on the documentation submitted by the Company.

Repairs and Maintenance - Adjustment 4 decreases repairs and maintenance by \$2,107, from \$18,642 to \$16,536 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of repairs and maintenance based on the documentation submitted by the Company and the capitalization of \$1,092 in labor for a major upgrade to the Company's pumping equipment that the Ehrenberg partially recorded as repairs and maintenance.

Outside Services - Adjustment 5 decreases outside services expense by \$1,219, from \$18,754 to \$17,535 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of outside services expense based on the documentation submitted by the Company.

Water Testing - Adjustment 6 increases water testing by \$1,491 from \$3,199 to \$4,690 as shown on Schedule DRE-3, pages 1 and 2. This adjustment reflects the annual water testing costs determined by Staff and reported in the attached Engineering Report.

Transportation Expenses - Adjustment 7 decreases transportation expenses by \$6,267, from \$7,906 to \$1,639 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's removal of the loan payments for a truck that the Company financed without Commission approval.

Staff is not requesting that the Company submit a financing application for the truck loan as the purchase is scheduled to be completed in October 2009, likely before a final Commission Decision will be rendered in this rate application. Staff has recognized the value of the truck in account 341 Transportation Equipment.

Regulatory Commission Expense - Rate Case - Adjustment 8 increases regulatory commission expense - rate case by \$500, from \$0 to \$500 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's computation of the normalized level of annual rate case expense. The Company did not request rate case expense in its application.

Depreciation Expense - Adjustment 9 decreases depreciation expense by \$49,348, from \$63,192 to \$13,844 as shown on Schedule DRE-3, pages 1 and 3. This adjustment reflects Staff's calculation of depreciation expense applying Staff's recommended depreciation rates to Staff's recommended plant balances for Ehrenberg and the removal of CIAC amortization from depreciation expense.

Taxes other than Income - Staff's adjustment 10 decreases taxes other than income by \$6,903, from \$6,903 to \$0 as shown on Schedule DRE-3, pages 1 and 4. This adjustment reflects Staff's removal of payroll taxes incorrectly submitted by Ehrenberg as taxes other than income. Staff increased salaries and wages expense by \$6,903 to reflect the adjustment.

Interest Expense - Staff's adjustment 11 decreases interest expense by \$1,867, from \$22,400 to \$20,532 as shown on Schedule DRE-3, pages 1 and 4. This adjustment reflects Staff's calculation of the interest expense on the Company's two Commission-approved loans. The Company submitted documentation that shows that Ehrenberg paid \$17,013 in interest expense for the 1978 \$600,000 construction loan and \$3,519 in interest expense on the 1995 \$92,100 construction loan for a total interest expense of \$20,532.

### **Operating Margin**

The Company's proposed rates and charges would provide an operating income of \$403,460 for an operating margin of 58.34 percent.

Staff's recommended rates and charges would provide an operating income of \$54,915 for an operating margin of 18.33 percent.

Staff utilized the operating margin to determine revenue requirement due to Ehrenberg being a non-profit corporation. A rate of return is based on rate base and would allow the Company to earn a return on its investment which is contrary to Ehrenberg's status as a non-profit corporation. Additionally, Ehrenberg's low rate base level would not produce enough revenue utilizing an appropriate rate of return.

### **Revenue Requirement**

Staff recommends total operating revenue of \$299,570, a \$37,620 or 14.36 percent increase over the Staff adjusted test year operating revenue of \$261,949. Staff's recommended revenue provides an operating income of \$54,915, and an operating margin of 18.33 percent as shown in Schedule DRE-1.

In determining the revenue requirement, Staff endeavored to provide the Company sufficient funds to manage contingencies, operating expenses, below the line expenses, etc. Staff believes that an 18.33 percent operating margin provides ample funds to accomplish this goal.

The Company's Commission-approved loans require \$20,532 in interest expense and \$22,861 in principal repayment for a total of \$43,393 in annual debt service. Schedule DRE-1 shows the ratios for times interest earned ratio ("TIER") and debt service coverage ("DSC").

TIER represents the number of times earnings before income tax expense covers interest expense on debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term. DSC represents the number of times internally generated cash (i.e., earnings before interest, income tax, depreciation, and amortization expenses) covers required principle and interest payments on debt. A DSC greater than 1.0 means operating cash flow is sufficient to cover debt obligations.

Schedule DRE-1, Staff as Adjusted column, shows that the implementation of Staff's recommended permanent rates for the Company's rate application. Staff's recommended rates produce a TIER of 2.67 and a DSC of 1.58. These ratios indicate that Ehrenberg would have sufficient earnings and operating cash flow to meet the long-term debt obligations on its Commission approved loans, pay its operating expenses, and have additional funds to meet contingencies.

### **Rate Design**

Schedule DRE-4 Pages 1 and 2 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The Company's present monthly customer charges vary by meter size as follows: 5/8-3/4 inch \$18.75; 3/4-inch, \$18.75; 1-inch, \$24.75; 1½-inch, \$27.75; 2-inch, \$47.75; 3-inch, \$100.00; 4-inch, \$125.00; 6-inch, \$150.00; and 8-inch, \$250.00. 4,000 gallons are included in the minimum. The present commodity rate is a flat rate of \$1.60 per thousand gallons for all usage over 4,000 gallons.

The Company has requested an inverted three-tier rate structure with tier break-over points at 4,000 and 6,000 gallons with corresponding tier rates of \$2.90, \$4.06, and \$5.68. Staff also recommends an inverted three-tier rate structure but with tier break-over points at 3,000 and 8,000 gallons with corresponding tier rates of \$1.25, \$1.65, and \$1.90. The transition from a flat rate structure to an inverted three-tier structure required Staff to lower the current flat rate of \$1.60 to a first tier rate of \$1.25 and the current monthly minimum from \$18.75 to \$15.00.

The Company's proposed rates would increase the typical 3/4-inch meter residential bill with a median usage of 5,327 gallons from \$20.87 to \$42.72, an increase of \$21.85 or 104.7 percent, as shown on Schedule DRE-5.

Staff's recommended rates would increase the typical 3/4-inch meter residential bill with a median usage of 5,327 gallons from \$20.87 to \$22.59, for an increase of \$1.72 or 8.2 percent.

### **Miscellaneous Service Charges**

The Company has proposed increases and/or changes to its establishment, establishment (after hours), reconnection (delinquent), reconnection (delinquent) after hours, meter test (if correct), deposit, deposit interest, NSF check, deferred payment (per month), meter re-read (if correct), and late fees. Staff notes that any increase in miscellaneous service charges recommended by Staff will have no effect on Staff's total annual operating revenue. This is a result of Staff offsetting any increase in miscellaneous service charges with an equal decrease in metered revenue.

The Company proposes to increase service charges for Establishment Fee from \$30 to \$40. Staff finds \$40 as a reasonable and normal charge and recommends it.

The Company proposes to increase service charges for Establishment (after hours) Fee from \$40 to \$60. Staff finds \$50 as a reasonable and normal charge and recommends it.

The Company proposes to increase service charges for Reconnection (delinquent) from \$30 to \$50. Staff finds \$50 as a reasonable and normal charge and recommends it.

The Company proposes to increase service charges for Reconnection (delinquent) after hours from N/A to \$50. Staff finds \$50 as a reasonable and normal charge and recommends it.

The Company proposes to increase Meter Tests (if correct) from \$25 to \$40. Staff finds \$25 as a reasonable and normal charge and recommends it.

The Company proposes to change the deposit service charge from Commission Rule R14-2-403 (B) to \$80. Staff finds that Commission Rule R14-2-403 (B) is a reasonable and normal charge and recommends it.

The Company proposes to change the deposit interest service charge from Commission Rules R14-2-403 (B) to 6.00 percent. Staff finds that Commission Rules R14-2-403 (B) is a reasonable and normal charge and recommends it.

The Company proposes to increase NSF charges from \$15 to \$50. Staff finds \$25 as a reasonable and normal charge and recommends it.

The Company proposes to increase deferred payments (per month) charges from 1.50 percent to 2.25 percent. Staff finds 1.50 percent as a reasonable and normal charge and recommends it.

The Company proposes to increase Meter Re-reads (if correct) from \$10 to \$15. Staff finds \$15 as a reasonable and normal charge and recommends it.

The Company proposes to increase late payment charge-per month from N/A to \$5.00. Staff finds 1.50 percent per month as a reasonable and normal charge and recommends it.

### **Service Line and Meter Installation Charges**

Service line and meter installation charges are refundable advances. The Company has requested changes in its service line and meter installation charges and the requested charges are not within Staff's customary range of charges. The Company has not justified its requested charges. Staff will recommend the upper end of its own customary charges, plus charges for installation of 8-inch service line and meter "At Cost". Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff.

Staff recommends approval of Staff's Service Line and Meter Installation Charges as shown on Tables D in Section I of the attached Engineering Report.

### **Staff Recommendations**

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule DRE-4, Pages 1 and 2. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

Staff further recommends that the above rates and charges not become effective until the first day of the month after the Company submits to Docket Control documentation from the Commission's Corporations Division that Ehrenberg is in good standing.

Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the Company file, as a compliance item in this Docket, no later than December 31, 2009, documentation issued by the Arizona Department of Water Resources ("ADWR") indicating that the Company's System Water Plan meets ADWR requirements.

Staff further recommends that the Company record and report accurate data for number of customers in its future Annual Reports, beginning with the 2008 Annual Report filed in 2009.

Staff further recommends that the Company adopt the typical and customary depreciation rates as delineated on Table C in Section H of the attached Engineering Report.

Staff further recommends approval of separate installation charges for the service line

and meter installation charges as delineated in Table D in Section I of the attached Engineering Report.

Staff recommends approval of the Company's curtailment tariff in this proceeding.

**Ehrenberg Improvement Association Water Department**

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**RATE BASE**

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$1,852,621	(\$428,751)	A	\$1,423,870
Less:				
Accum. Depreciation	990,511	(264,156)	B	726,355
<b>Net Plant</b>	<b>\$862,110</b>	<b>(\$164,595)</b>		<b>\$697,515</b>
Less:				
Plant Advances	\$0	\$0		\$0
Accumulated Deferred Income Taxes	6,298	0		6,298
<b>Total Advances</b>	<b>\$6,298</b>	<b>\$0</b>		<b>\$6,298</b>
Contributions Gross	\$20,000	\$1,006,379	C	\$1,026,379
Less:				
Amortization of CIAC	1,185	625,938	D	627,123
<b>Net CIAC</b>	<b>\$18,815</b>	<b>\$380,441</b>		<b>\$399,256</b>
<b>Total Deductions</b>	<b>\$25,113</b>	<b>\$380,441</b>		<b>\$405,554</b>
Plus:				
1/24 Power	\$0	\$796	E	\$796
1/8 Operation & Maint.	0	24,732	F	24,732
Inventory	0	0		0
Prepayments	0	0		0
<b>Total Additions</b>	<b>\$0</b>	<b>\$25,528</b>		<b>\$25,528</b>
<b>Rate Base</b>	<b>\$836,997</b>	<b>(\$519,508)</b>		<b>\$317,489</b>

**Explanation of Adjustment:**

- A - See Schedule 2, Page 2, 3, and 4
- B - See Schedule 2, Page 5
- C - See Schedule 2, Page 6
- D - See Schedule 2, Page 6
- E - See Schedule 2, Page 7
- F - See Schedule 2, Page 7

**PLANT ADJUSTMENT**

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	4,800	0	4,800
304 Structures & Improvements	23,238	24,949 a	48,187
305 Collecting & Impounding Reservoirs	0	0	0
306 Lake, River, Canal Intakes	0	0	0
307 Wells & Springs	0	8,221 b	8,221
308 Infiltration Galleries	0	0	0
309 Raw Water Supply Mains	0	0	0
310 Power Generated Equipment	0	0	0
311 Pumping Equipment	103,720	(72,697) c	31,023
320 Water Treatment Equipment	0	0	0
320.1 Water Treatment Plants	455,634	(225,260) d	230,374
320.2 Solution Chemical Feeders	34,857	(32,329) e	2,528
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	1,068,267	(780,458) f	287,809
330.2 Pressure Tanks	0	0	0
331 Transmission & Distribution Mains	85,854	408,159 g	494,013
333 Services	0	77,205 h	77,205
334 Meters & Meter Installations	0	103,348 i	103,348
335 Hydrants	0	64,367 j	64,367
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	4,854	832 k	5,686
340.1 Computers & Software	0	1,478 l	1,478
341 Transportation Equipment	63,380	(12,885) m	50,495
342 Stores Equipment	0	0	0
343 Tools Shop & Garage Equipment	5,621	2,711 n	8,332
344 Laboratory Equipment	2,396	1,255 o	3,651
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	732 p	732
347 Miscellaneous Equipment	0	1,622 q	1,622
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
<b>TOTALS</b>	<b>\$1,852,621</b>	<b>(\$428,751) A</b>	<b>\$1,423,870</b>

Explanation of Adjustment:

- a - See Schedule 2, Page 3
- b - See Schedule 2, Page 3
- c - See Schedule 2, Page 3
- d - See Schedule 2, Page 3
- e - See Schedule 2, Page 3
- f - See Schedule 2, Page 3
- g - See Schedule 2, Page 3
- h - See Schedule 2, Page 3
- i - See Schedule 2, Page 4
- j - See Schedule 2, Page 4
- k - See Schedule 2, Page 4
- l - See Schedule 2, Page 4
- m - See Schedule 2, Page 4
- n - See Schedule 2, Page 4
- o - See Schedule 2, Page 4
- p - See Schedule 2, Page 4
- q - See Schedule 2, Page 4



**STAFF PLANT ADJUSTMENTS**

a -	STRUCTURES & IMPROVEMENTS - Per Company	\$23,238	
	Per Staff	48,187	\$24,949
	To properly reflect account balance per Decision No. 59852 and supported plant additions		
b -	WELLS & SPRINGS - Per Company	\$0	
	Per Staff	8,221	\$8,221
	To properly reflect account balance per Decision No. 59852		
c -	PUMPING EQUIPMENT - Per Company	\$103,720	
	Per Staff	31,023	(\$72,697)
	To properly reflect account balance per Decision No. 59852 and remove unsupported claimed plant additions		
d -	WATER TREATMENT PLANTS - Per Company	\$455,634	
	Per Staff	230,374	(\$225,260)
	To properly reflect account balance per Decision No. 59852 and remove unsupported claimed plant additions		
e -	SOLUTION CHEMICAL FEEDERS - Per Company	\$34,857	
	Per Staff	2,528	(\$32,329)
	To properly reflect account balance per Decision No. 59852 and remove unsupported claimed plant additions		
f -	STORAGE TANKS - Per Company	\$1,068,267	
	Per Staff	287,809	(\$780,458)
	To properly reflect account balance per Decision No. 59852 and remove unsupported claimed plant additions		
g -	TRANSMISSION & DISTRIBUTION MAINS - Per Company	\$85,854	
	Per Staff	494,013	\$408,159
	To properly reflect account balance per Decision No. 59852 and supported plant additions		
h -	SERVICES - Per Company	\$0	
	Per Staff	77,205	\$77,205
	To properly reflect account balance per Decision No. 59852 and supported plant additions		

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**STAFF ADJUSTMENTS (Cont.)**

i -	METERS & METER INSTALLATIONS - Per Company	\$0	
	Per Staff	103,348	\$103,348
	To properly reflect account balance per Decision No. 59852 and supported plant additions		
j -	HYDRANTS - Per Company	\$0	
	Per Staff	64,367	\$64,367
	To properly reflect account balance per Decision No. 59852 and supported plant additions		
k -	OFFICE FURNITURE & EQUIPMENT - Per Company	\$4,854	
	Per Staff	5,686	\$832
	To properly reflect account balance per Decision No. 59852 and supported plant additions		
l -	COMPUTERS & SOFTWARE- Per Company	\$0	
	Per Staff	1,478	\$1,478
	To properly reflect supported plant additions		
m -	TRANSPORTATION EQUIPMENT - Per Company	\$63,380	
	Per Staff	50,495	(\$12,885)
	To properly reflect account balance per Decision No. 59852 and remove unsupported claimed plant additions		
n -	TOOLS SHOP & GARAGE EQUIPMENT - Per Company	\$5,621	
	Per Staff	8,332	\$2,711
	To properly reflect account balance per Decision No. 59852 and supported plant additions		
o -	LABORATORY EQUIPMENT - Per Company	\$2,396	
	Per Staff	3,651	\$1,255
	To properly reflect supported plant additions		
p -	COMMUNICATION EQUIPMENT - Per Company	\$0	
	Per Staff	732	\$732
	To properly reflect supported plant additions		
q -	MISCELLANEOUS EQUIPMENT - Per Company	\$0	
	Per Staff	1,622	\$1,622
	To properly reflect supported plant additions		

## ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$990,511
Accumulated Depreciation - Per Staff	726,355
<b>Total Adjustment</b>	<b><u>(\$264,156) B</u></b>

B - To reflect Staff's calculation of accumulated depreciation expense based upon Staff's adjustments to plant.

Accumulated Depreciation per Decision No. 59852		\$311,888
1996 Credit to Accumulated Depreciation	\$31,761	
1997 Credit to Accumulated Depreciation	\$31,761	
1998 Credit to Accumulated Depreciation	\$31,761	
1999 Credit to Accumulated Depreciation	\$31,637	
2000 Credit to Accumulated Depreciation	\$31,489	
2001 Credit to Accumulated Depreciation	\$31,489	
2002 Credit to Accumulated Depreciation	\$31,489	
2003 Credit to Accumulated Depreciation	\$32,892	
2004 Credit to Accumulated Depreciation	\$36,976	
2005 Credit to Accumulated Depreciation	\$40,257	
2006 Credit to Accumulated Depreciation	\$41,478	
2007 Credit to Accumulated Depreciation	<u>\$42,275</u>	
		\$415,267
2003 Plant Retirement	(\$100)	
2006 Plant Retirement	(\$500)	
2007 Plant Retirement	<u>(\$200)</u>	
		(\$800)
Accumulated Depreciation 12/31/2007 Staff Balance		\$726,355
Less: Company Balance		<u>\$990,511</u>
Staff Adjustment		(\$264,156)

# **STAFF RATE BASE ADJUSTMENTS**

C	-	CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC") - Per Company	\$	20,000	
		Per Staff		1,026,379	<u>\$1,006,379</u>

To reflect Staff's calculation of CIAC based upon balance established by Decision No. 59852 and documentation submitted by the Company

CIAC balance 12/31/1995 per Decision No.59852 \$1,076,000

2006 Addition to CIAC \$16,768

2007 Addition to CIAC \$3,232

\$20,000

Total \$1,096,000

CIAC Retirement (\$69,621)

CIAC Balance 12/31/2007 \$1,026,379

D	-	AMORTIZATION OF CIAC - Per Company		\$1,185	
		Per Staff		<u>\$627,123</u>	<u>\$625,938</u>

To reflect Staff's calculation of amortization of CIAC based upon Staff's adjustments to CIAC account balance

Amortization of CIAC 12/31/1995 balance per Decision No. 59852 \$319,013

1996 Addition to CIAC \$25,397

1997 Addition to CIAC \$25,397

1998 Addition to CIAC \$25,397

1999 Addition to CIAC \$25,397

2000 Addition to CIAC \$25,397

2001 Addition to CIAC \$25,397

2002 Addition to CIAC \$25,397

2003 Addition to CIAC \$25,397

2004 Addition to CIAC \$25,397

2005 Addition to CIAC \$25,397

2006 Addition to CIAC \$26,445

2007 Addition to CIAC \$27,695

\$308,110

Staff Balance, CIAC 12/31/2007 \$627,123

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**STAFF ADJUSTMENTS (Cont.)**

E	-	WORKING CAPITAL (1/24 PURCHASED PWR & WTR) - Per Company	\$	-	
		Per Staff		796	\$796

To reflect Staff's calculation of cash working capital based upon  
Staff's recommendations for purchased power and purchased water

F	-	WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - Per Company	\$	-	
		Per Staff		24,732	\$24,732

To reflect Staff's calculation of cash working capital based upon  
Staff's recommendations for operation and maintenance expense  
(excluding purchased power and purchased water expenses)

## STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
<b>Revenues:</b>			
461 Metered Water Revenue	\$259,082	\$612 1	\$259,694
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	2,255	0	2,255
<b>Total Operating Revenue</b>	<b>\$261,337</b>	<b>\$612</b>	<b>\$261,949</b>
<b>Operating Expenses:</b>			
601 Salaries and Wages	\$84,657	\$20,637 2	\$105,294
610 Purchased Water	0	0	0
615 Purchased Power	19,373	(265) 3	19,108
618 Chemicals	10,633	0	10,633
620 Repairs and Maintenance	18,642	(2,107) 4	16,536
621 Office Supplies & Expense	7,077	0	7,077
630 Outside Services	18,754	(1,219) 5	17,535
635 Water Testing	3,199	1,491 6	4,690
641 Rents	10,600	0	10,600
650 Transportation Expenses	7,906	(6,267) 7	1,639
657 Insurance - General Liability	10,716	0	10,716
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	500 8	500
675 Miscellaneous Expense	12,635	0	12,635
403 Depreciation Expense	63,192	(49,348) 9	13,844
408 Taxes Other Than Income	6,903	(6,903) 10	0
408.11 Property Taxes	13,849	0	13,849
409 Income Tax	0	0	0
<b>Total Operating Expenses</b>	<b>\$288,135</b>	<b>(\$43,480)</b>	<b>\$244,655</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>(\$26,798)</b>	<b>\$44,093</b>	<b>\$17,295</b>
<b>Other Income/(Expense):</b>			
419 Interest and Dividend Income	\$97	(\$0)	\$97
421 Non-Utility Income	25,030	(0)	25,030
427 Interest Expense	22,400	(1,867) 11	20,532
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
<b>Total Other Income/(Expense)</b>	<b>\$2,728</b>	<b>\$1,867</b>	<b>\$4,595</b>
<b>NET INCOME/(LOSS)</b>	<b>(\$24,071)</b>	<b>\$45,960</b>	<b>\$21,889</b>

### STAFF ADJUSTMENTS

1 -	METERED WATER REVENUE - Per Company	\$259,082	
	Per Staff	259,694	\$613
	To reflect the metered water revenue per the Company's submitted bill count		
2 -	SALARIES AND WAGES - Per Company	\$84,657	
	Per Staff	105,294	\$20,637
	To reflect Staff's computation of annual salaries and wages and Staff's adjustment to correctly record payroll taxes incorrectly recorded as taxes other than income		
	Salaries and Wages balance per Company	\$84,657	
	Staff Adjustment to correctly record payroll taxes	\$6,903	
	Staff's adjusted balance	\$91,560	
	Staff's recommended adjustment to address deficiencies	\$13,734	
	Staff's recommended balance for Salaries and Wages	\$105,294	
3 -	PURCHASED POWER - Per Company	\$19,373	
	Per Staff	19,108	(\$265)
	To reflect Staff's computation of Purchased Power based on submitted invoices		
4 -	REPAIRS & MAINTENANCE - Per Company	\$18,642	
	Per Staff	16,536	(\$2,107)
	To reflect Staff's computation of Repairs & Maintenance based on based on submitted documentation and Staff's capitalizing labor on pumping equipment installation		
5 -	OUTSIDE SERVICES - Per Company	\$18,754	
	Per Staff	17,535	(\$1,219)
	To reflect Staff's computation of Outside Services based on Staff's removal of unsupported claimed expenses		
6 -	WATER TESTING - Per Company	\$3,199	
	Per Staff	4,690	\$1,491
	To reflect Staff's annual water testing expense		
7 -	TRANSPORTATION EXPENSES - Per Company	\$7,906	
	Per Staff	1,639	(\$6,267)
	To reflect Staff's removal of payments on a vehicle loan that was never approved by the Commission		
8 -	REGULATORY COMMISSION EXPENSE - RATE CASE - Per Company	\$0	
	Per Staff	500	\$500
	To reflect a normalized level of annual rate case expense.		

**STAFF ADJUSTMENTS (Cont.)**

9 - DEPRECIATION - Per Company  
Per Staff

\$63,192  
13,844 (\$49,348)

Explanation of Adjustment:

**Pro Forma Annual Depreciation Expense:**

DESCRIPTION	PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciate PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
Organization	\$ -	\$ -	\$ -	0.00%	\$ -
Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
Land & Land Rights	\$ 4,800	\$ 4,800	\$ -	0.00%	\$ -
Structures & Improvem	\$ 48,187	\$ -	\$ 48,187	3.33%	\$ 1,605
Collecting & Impoundin	\$ -	\$ -	\$ -	2.50%	\$ -
Lake, River, Canal Inta	\$ -	\$ -	\$ -	2.50%	\$ -
Wells & Springs	\$ 8,221	\$ -	\$ 8,221	3.33%	\$ 274
Infiltration Galleries	\$ -	\$ -	\$ -	2.00%	\$ -
Raw Water Supply Mai	\$ -	\$ -	\$ -	5.00%	\$ -
Power Generated Equi	\$ -	\$ -	\$ -	12.50%	\$ -
Pumping Equipment	\$ 31,023	\$ -	\$ 31,023	20.00%	\$ 6,205
Water Treatment Equip	\$ -	\$ -	\$ -	0.00%	\$ -
Water Treatment Pla	\$ 230,374	\$ -	\$ 230,374	3.33%	\$ 7,679
Solution Chemical Fe	\$ 2,528	\$ -	\$ 2,528	20.00%	\$ 506
Distribution Reservoirs	\$ -	\$ -	\$ -	0.00%	\$ -
Storage Tanks	\$ 287,809	\$ -	\$ 287,809	2.22%	\$ 6,396
Pressure Tanks	\$ -	\$ -	\$ -	5.00%	\$ -
Transmission & Distrib	\$ 494,013	\$ -	\$ 494,013	2.00%	\$ 9,880
Services	\$ 77,205	\$ -	\$ 77,205	3.33%	\$ 2,574
Meters & Meter Installz	\$ 103,348	\$ -	\$ 103,348	8.33%	\$ 8,612
Hydrants	\$ 64,367	\$ -	\$ 64,367	2.00%	\$ 1,287
Backflow Prevention D	\$ -	\$ -	\$ -	6.67%	\$ -
Other Plant and Misc. I	\$ -	\$ -	\$ -	6.67%	\$ -
Office Furniture & Equi	\$ 5,686	\$ -	\$ 5,686	6.67%	\$ 379
Computers & Softwa	\$ 1,478	\$ -	\$ 1,478	20.00%	\$ 296
Transportation Equipm	\$ 50,495	\$ 2,050	\$ 48,445	20.00%	\$ 9,689
Tools Shop & Garage I	\$ 8,332	\$ -	\$ 8,332	5.00%	\$ 417
Laboratory Equipment	\$ 3,651	\$ -	\$ 3,651	10.00%	\$ 365
Power Operated Equip	\$ -	\$ -	\$ -	5.00%	\$ -
Communication Equipr	\$ 732	\$ -	\$ 732	10.00%	\$ 73
Miscellaneous Equipm	\$ 1,622	\$ -	\$ 1,622	10.00%	\$ 162
Other Tangible Plant	\$ -	\$ -	\$ -	0.00%	\$ -
<b>Total</b>	<b>\$ 1,423,870</b>	<b>\$ 6,850</b>	<b>\$ 1,417,020</b>		<b>\$ 56,398</b>

Depreciation Expense Before Amortization of CIAC:	\$ 56,398
Amortization of CIAC	\$ 42,554
<b>Test Year Depreciation Expense - Staff:</b>	<b>\$ 13,844</b>
Depreciation Expense - Company:	\$63,192
<b>Staff's Total Adjustment:</b>	<b>\$ (49,348)</b>

**Pro Forma Annual Depreciation Expense:**

Plant in Service	\$1,423,870
Less: Non Depreciable Plant	4,800
Fully Depreciated Plant	2,050
<b>Depreciable Plant</b>	<b>\$1,417,020</b>
Times: Staff Proposed Depreciation Rate	3.98%
Full Year Credit to Accumulated Depreciation	\$56,398 *
Less: Amort. of CIAC* @ 3.98%	42,554
<b>Pro Forma Annual Depreciation Expense</b>	<b>\$13,844</b>



**STAFF ADJUSTMENTS (Cont.)**

10 -	TAXES OTHER THAN INCOME - Per Company	\$6,903	
	Per Staff	0	(\$6,903)

To reflect Staff's adjustment for payroll taxes incorrectly recorded

11 -	INTEREST EXPENSE - Per Company	\$22,400	
	Per Staff	20,532	(\$1,867)

To reflect Staff's calculation of interest expense for  
Commission approved loans

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**RATE DESIGN**

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$18.75	\$23.00	\$15.00
3/4" Meter	18.75	23.00	15.00
1" Meter	24.75	30.00	20.00
1½" Meter	27.75	33.00	25.00
2" Meter	47.75	72.00	50.00
3" Meter	100.00	120.00	100.00
4" Meter	125.00	150.00	175.00
6" Meter	150.00	304.00	300.00
8" Meter	250.00	529.00	525.00
<b>Gallons Included in Minimum</b>			
For all Meter Sizes	4,000	0	0
<b>Commodity Rates:</b>			
Per 1,000 Gallons for all usage (over 4,000 gallons)	\$1.60	N/A	N/A
Per 1,000 Gallons for 0 to 4,000 Gallons	N/A	\$2.90	N/A
Per 1,000 Gallons for 4,001 to 6,000 Gallons	N/A	\$4.06	N/A
Per 1,000 Gallons for Gallons in Excess of 6,000	N/A	\$5.68	N/A
Per 1,000 Gallons for 0 to 3,000 Gallons	N/A	N/A	\$1.25
Per 1,000 Gallons for 3,001 to 8,000	N/A	N/A	\$1.65
Per 1,000 Gallons for Gallons in Excess of 8,000	N/A	N/A	\$1.90
Construction - for all usage	N/A	\$3.00	\$1.90

### RATE DESIGN (Cont.)

#### Service Line and Meter Installation Charges

Same Side of Road as Water Main

Meter Size	Company Current Tariff	Company Proposed Tariff	Staff's Recommendation		
			Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$365	\$1,160	\$445	\$155	\$600
3/4-inch	\$405	\$1,205	\$445	\$255	\$700
1-inch	\$455	\$1,390	\$495	\$315	\$810
1½-inch	\$655	\$2,175	\$560	\$525	\$1,075
2-inch Turbo	\$1,080	\$2,880	\$830	\$1,045	\$1,875
2-inch Compound	\$1,580	\$2,990	\$830	\$1,890	\$2,720
3-inch Turbo	\$1,460	\$2,735	\$1,045	\$1,670	\$2,715
3-inch Compound	\$2,030	\$3,660	\$1,165	\$2,545	\$3,710
4-inch Turbo	\$2,350	\$3,715	\$1,490	\$2,670	\$4,160
4-inch Compound	\$2,985	\$5,710	\$1,670	\$3,645	\$5,315
6-inch Turbo	\$4,450	\$6,023	\$2,210	\$5,025	\$7,235
6-inch Compound	\$5,780	\$10,065	\$2,330	\$6,920	\$9,250
8-inch Turbo	\$7,450	\$8,610	At Cost	At Cost	At Cost
8-inch Compound	\$9,695	\$16,205	At Cost	At Cost	At Cost

#### Service Charges

Service Charges	Present Rates	-Proposed Rates-	
		Company	Staff
Establishment	\$30.00	\$40.00	\$40.00
Establishment (After Hours)	40.00	60.00	50.00
Reconnection (Delinquent)	30.00	50.00	50.00
Reconnection (Delinquent) after hours	N/A	50.00	50.00
Meter Test (if correct)	25.00	40.00	25.00
Deposit	*	80.00	*
Deposit Interest	*	6.00%	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	50.00	25.00
Deferred Payment (per month)	1.50%	2.25%	1.60%
Meter Re-Read (If Correct)	10.00	15.00	15.00
Late Fee	N/A	5.00	1.50%

#### Monthly Service Charge for Fire Sprinkler

4" or Smaller	***	N/A	****
6"	***	N/A	****
8"	***	N/A	****
10"	***	N/A	****
Larger than 10"	***	N/A	****

\* Per Commission Rules R14-2-403(B)

\*\* Months off system times the monthly minimum (R14-2-403.D)

\*\*\* 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

\*\*\*\* 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

**TYPICAL BILL ANALYSIS**  
General Service 3/4 - Inch Meter

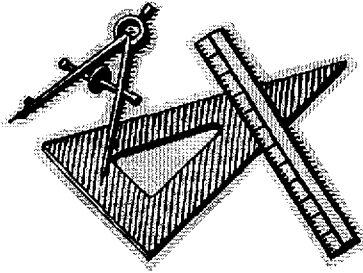
Average Number of Customers: 174

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	10,781	\$29.60	\$69.88	\$40.28	136.1%
Median Usage	5,327	\$20.87	\$42.72	\$21.85	104.7%

Staff Recommend	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	10,781	\$29.60	\$32.28	\$2.68	9.1%
Median Usage	5,327	\$20.87	\$22.59	\$1.72	8.2%

Present & Proposed Rates (Without Taxes)  
General Service 3/4 - Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	\$18.75	\$23.00	22.7%	\$15.00	-20.0%
1,000	18.75	25.90	38.1%	16.25	-13.3%
2,000	18.75	28.80	53.6%	17.50	-6.7%
3,000	18.75	31.70	69.1%	18.75	0.0%
4,000	18.75	34.60	84.5%	20.40	8.8%
5,000	20.35	38.66	90.0%	22.05	8.4%
6,000	21.95	42.72	94.6%	23.70	8.0%
7,000	23.55	48.40	105.5%	25.35	7.6%
8,000	25.15	54.08	115.0%	27.00	7.4%
9,000	26.75	59.76	123.4%	28.90	8.0%
10,000	28.35	65.44	130.8%	30.80	8.6%
15,000	36.35	93.84	158.2%	40.30	10.9%
20,000	44.35	122.24	175.6%	49.80	12.3%
25,000	52.35	150.64	187.8%	59.30	13.3%
50,000	92.35	292.64	216.9%	106.80	15.6%
75,000	132.35	434.64	228.4%	154.30	16.6%
100,000	172.35	576.64	234.6%	201.80	17.1%
125,000	212.35	718.64	238.4%	249.30	17.4%
150,000	252.35	860.64	241.1%	296.80	17.6%
175,000	292.35	1,002.64	243.0%	344.30	17.8%
200,000	332.35	1,144.64	244.4%	391.80	17.9%



**ENGINEERING REPORT FOR EHRENBURG  
IMPROVEMENT ASSOCIATION  
DOCKET NO. W-02273A-08-0251**

**BY: KATRIN STUKOV  
UTILITIES ENGINEER**

KS

**OCTOBER 16, 2008**

**SUMMARY**

**CONCLUSIONS**

1. The Arizona Department of Environmental Quality ("ADEQ") reported no deficiencies and has determined that the Ehrenberg system is currently delivering water that meets the water quality standards required by 40 CFR141/Arizona Administrative Code, Title 18, Chapter 4.
2. The Company's water system has a water loss of 7.75 percent. This percentage is within acceptable limit of 10 percent.
3. The Company's water system pumping and storage capacities are adequate to serve the present customer base and a reasonable level of growth.
4. The Company is not located in an Arizona Department of Water Resources ("ADWR") designated Active Management Area ("AMA"). The ADWR has determined that the Company's water system is in compliance with the reporting requirements, and upon completion of its review of the Company's System Water Plan, which includes a Water Supply Plan, Drought Preparedness Plan and Water Conservation Plan, ADWR will issue documentation stating whether or not the System Water Plan filed meets ADWR requirements.
5. The Company has no outstanding Arizona Corporation Commission ("ACC") compliance issues.
6. Staff has reviewed the curtailment tariff submitted by the Company with its Rate Application and has determined that this tariff generally conforms to the sample tariff found posted on the Commission's website.
7. The Company has an approved backflow prevention tariff.

## **RECOMMENDATIONS**

1. Staff recommends that the Company file as a compliance item in this docket no later than December 31, 2009, documentation issued by ADWR indicating that the Company's System Water Plan met ADWR requirements.
2. Staff recommends that the Company record and report accurate data for number of customers in its future Annual Reports, beginning with the 2008 Annual Report filed in 2009.
3. Staff recommends that annual water testing expense of \$4,690 be used for this proceeding.
4. Staff recommends that the Company adopt the depreciation rates delineated in Table C.
5. Staff recommends that the Company adopt Staff's recommended Service Line and Meter Installation Charges as delineated in Table D.
6. Staff recommends approval of the Company's curtailment tariff in this proceeding.

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## A. INTRODUCTION AND LOCATION OF COMPANY

On May 16, 2008, Ehrenberg Improvement Association ("Company") filed a rate application with the Arizona Corporation Commission ("ACC" or "Commission"). The Company serves its customers in Ehrenberg, located at the Arizona state line and Interstate Highway 10.

Figure 1 shows the location of the Company within La Paz County and Figure 2 delineates the approximate 3,975 acres of certificated area.

Figure1

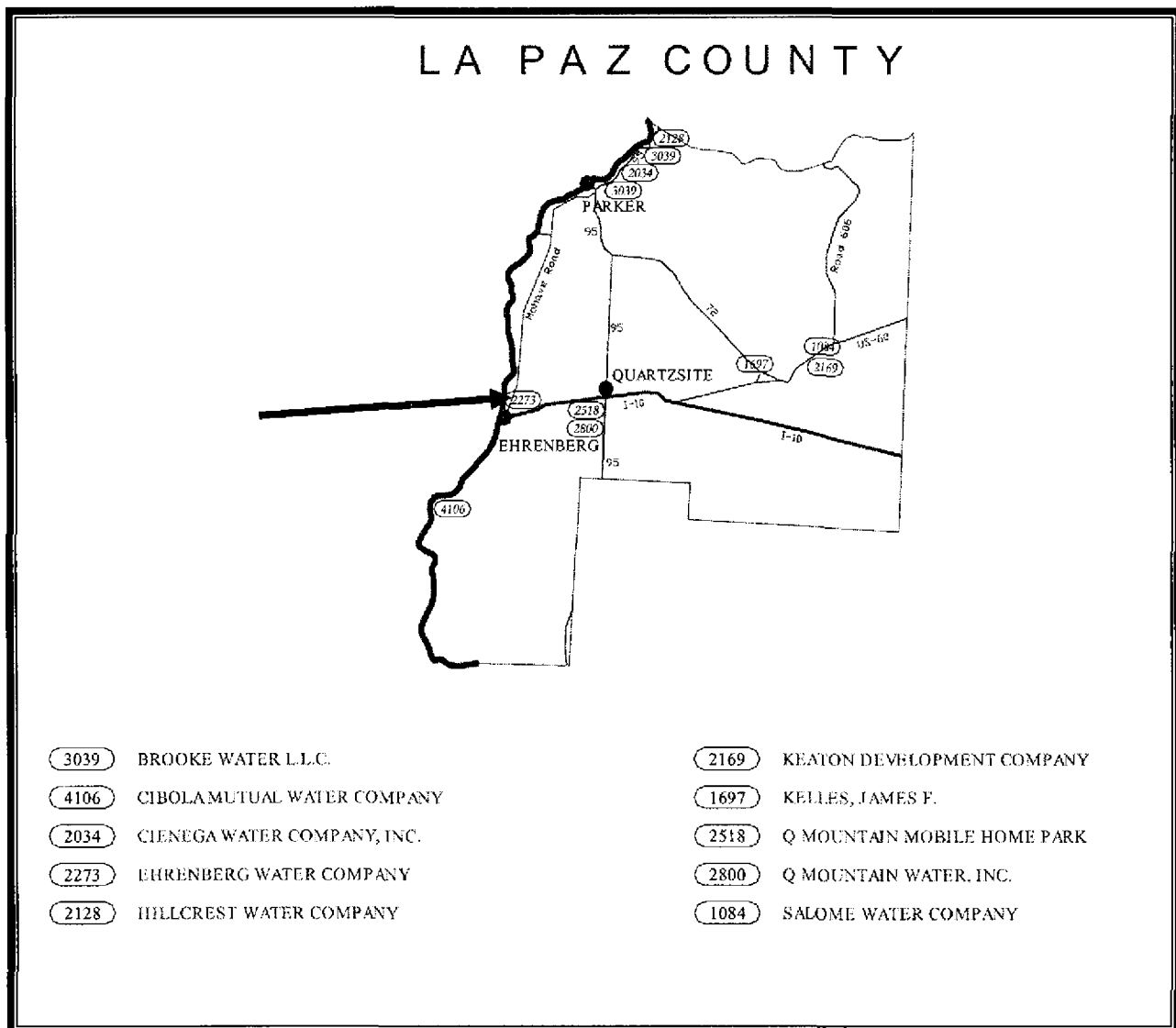
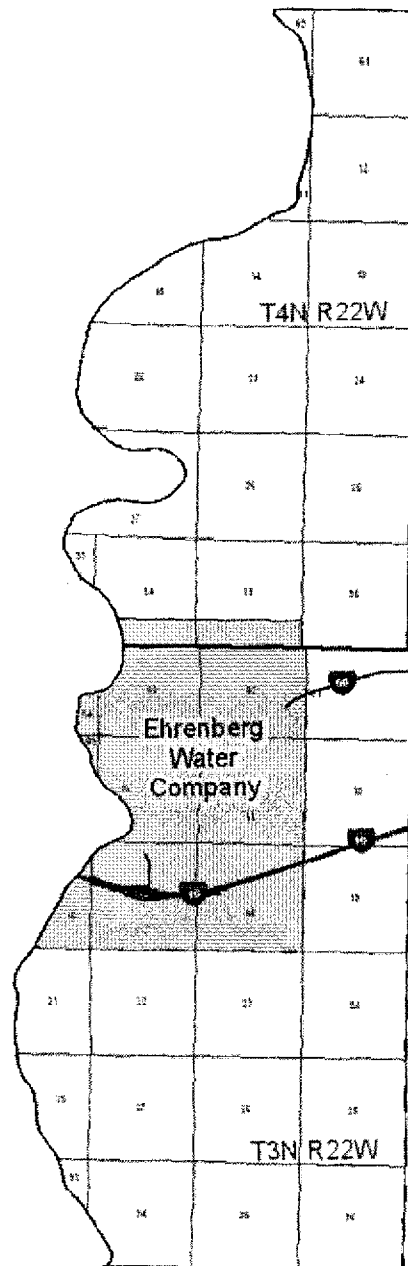




Figure2



**B. DESCRIPTION OF THE WATER SYSTEMS**

The plant facilities were visited on August 15, 2008, by Katrin Stukov in the accompaniment of Joseph Leach, General Manager; Gus Alcala, Assistant Water Operator; Christina Balvanz, President of the Board; Paul Linker, Vice President of the Board; Denise Angel, Vice President at Large of the Board.

The operation of the water system consists of the following major components:

- Colorado River intake system, including two vertical turbine intake pumps mounted over the river. One intake pump is standby and has no electrical connection.
- Water treatment system, including flocculent-feeder system, four multimedia pressure filters, gas chlorination system and two contact time holding tanks. During a treatment process, a flocculent is injected into the untreated water as it is pumped to the pressure filters. Gas chlorine is injected into the filtered water as it flows to 30,000 gallon and 5,000 gallon contact time holding tanks (which allow the contact time for the chlorine to act), prior to entering the distribution system.
- Storage facilities, including two 600,000 gallon steel storage tanks. The storage tank site is approximately 3.5 miles from the water treatment site. The tanks are located on top of a hill and feed the distribution system by gravity flow.
- Distribution system. The water system had 307 meters and served 297 customers during the test year of 2007.

Table A shows the plant facilities summary<sup>1</sup>. Figure 3 provides a process schematic for the water system.

---

<sup>1</sup> Based on the Company's Rate Application and Staff's site visit

Table A. Plant Facilities Summary

Water Mains			Meters		Fire Hydrants	
Size	Material	Length	Size	Quantity	Size	Quantity
6"	AC	2,925	5/8"X3/4"	0	Standard	63
8"	AC	8,220	3/4"	179		
12"	AC	267,000	1"	87		
			1-1/2"	11		
			2" comp.	2		
			2" turbo	13		
			3" comp.	0		
			3" turbo	7		
			4" comp.	2		
			4" turbo	0		
			6" comp.	2		
			6" turbo	0		
			8" turbo	1		
			Hydrant Meter	3		
			Total	307		

## Surface Water Source

Intake	No.1	No.2
Casing Size	8-inch	8-inch
Pump Capacity	100-Hp & 1,500 GPM	100-Hp & 1,500 GPM
Pumping Rate	640 GPM	standby pump (no electrical connection)

## Treatment Equipment

Flocculent-feeder system
Four custom designed multi-media pressure filters
Gas chlorination system
30,000 gallon contact time holding tank
5,000 gallon contact time holding tank

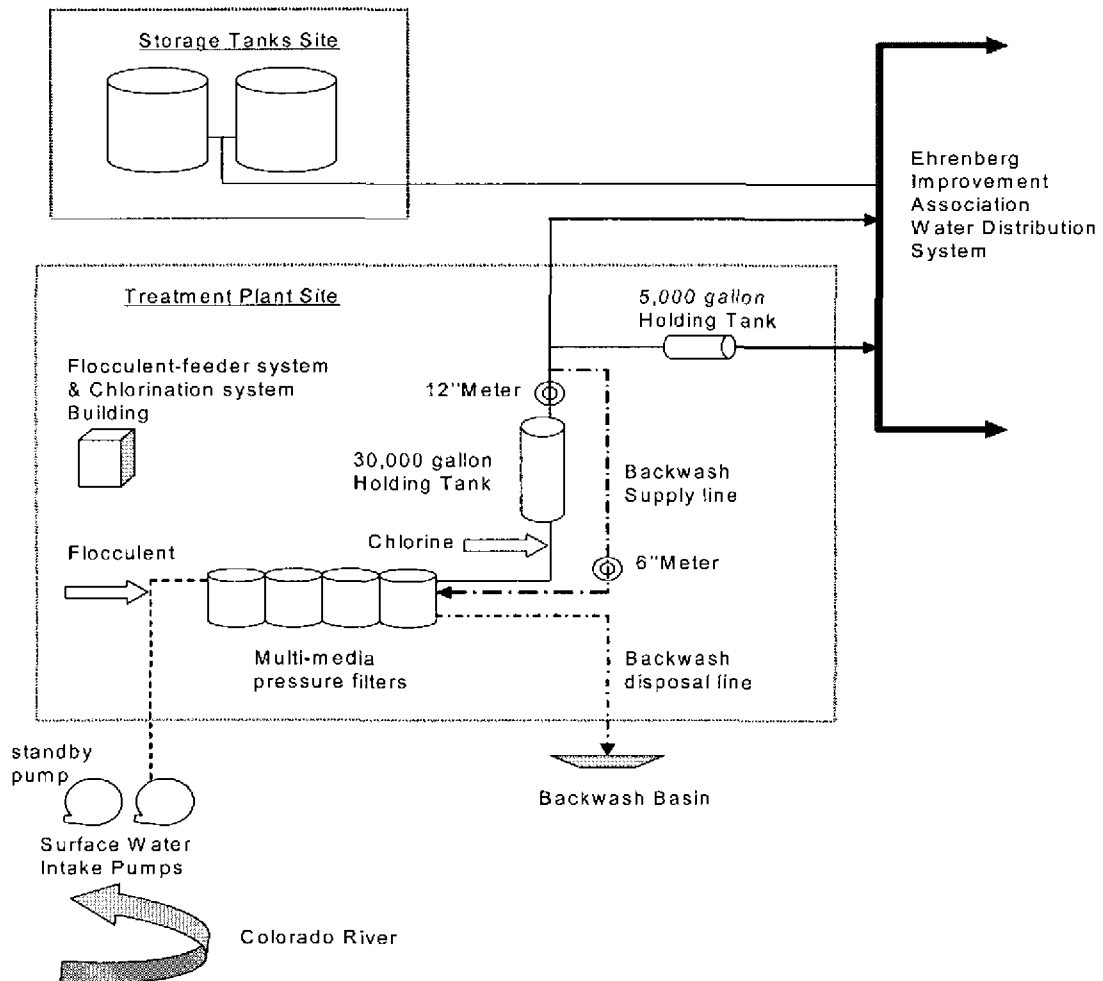
## Storage Tanks

Size	600,000 gallons
Quantity	2

## Structures

Intake Site	Intake structure, fence
Treatment Plant Site	6'x5' steel chlorination building, 30'x40' steel storage building, 10'x20' framed office for recording equipment, fence
Tank Site	fence

Figure3 System Schematic

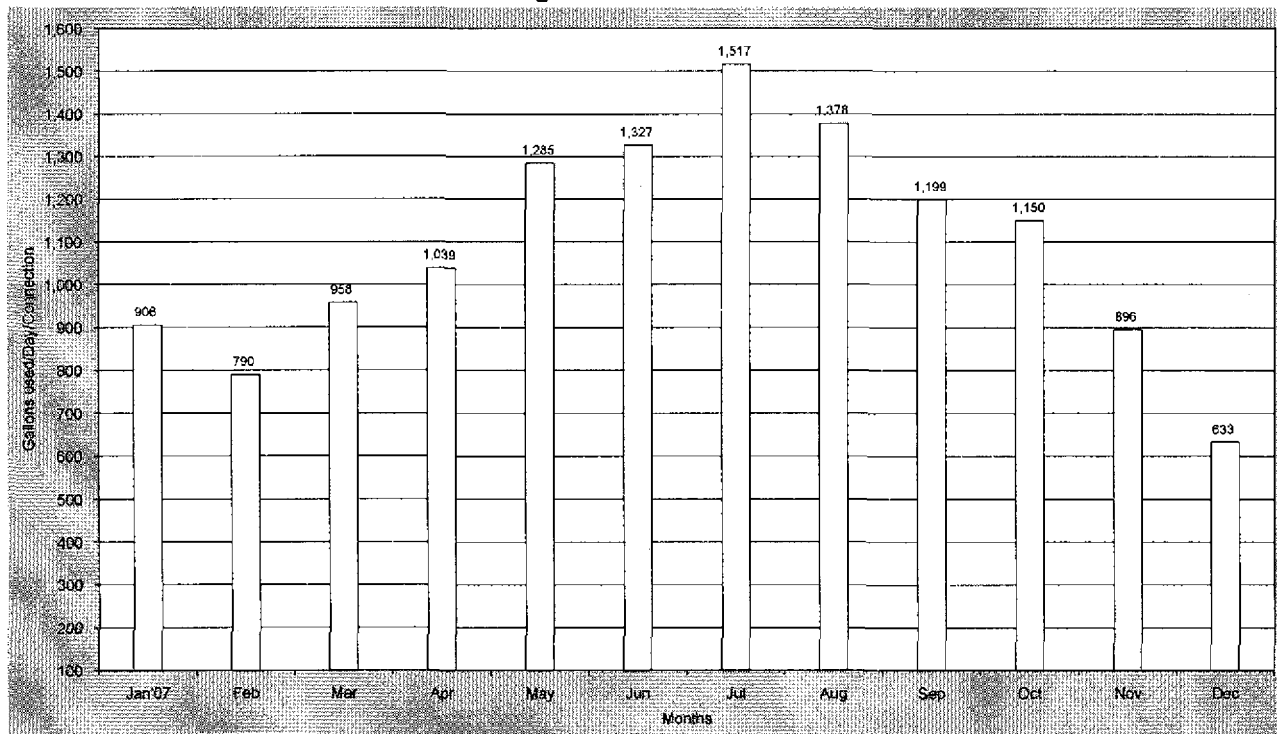


## C. WATER USE

### Water Sold

Figure 4 represents the water consumption data for the test year ending December 31, 2007, provided by the Company in its water use data sheet. Customer consumption included a high monthly water use of 1,517 gallons per day ("GPD") per connection in July, and the low water use was 633 GPD per connection in December. The average annual use was 1,090 GPD per connection.

Figure 4 Water Use



### Non-account Water

Non-account water should be 10 percent or less. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing. The Company reported 150,058,000 gallons pumped, 117,358,256 gallons sold, and 21,069,835 gallons of metered non-revenue water used for backwashing the treatment equipment and line flushing, resulting in a water loss of 7.75 percent. This percentage is within acceptable limit of 10 percent.

### System Analysis

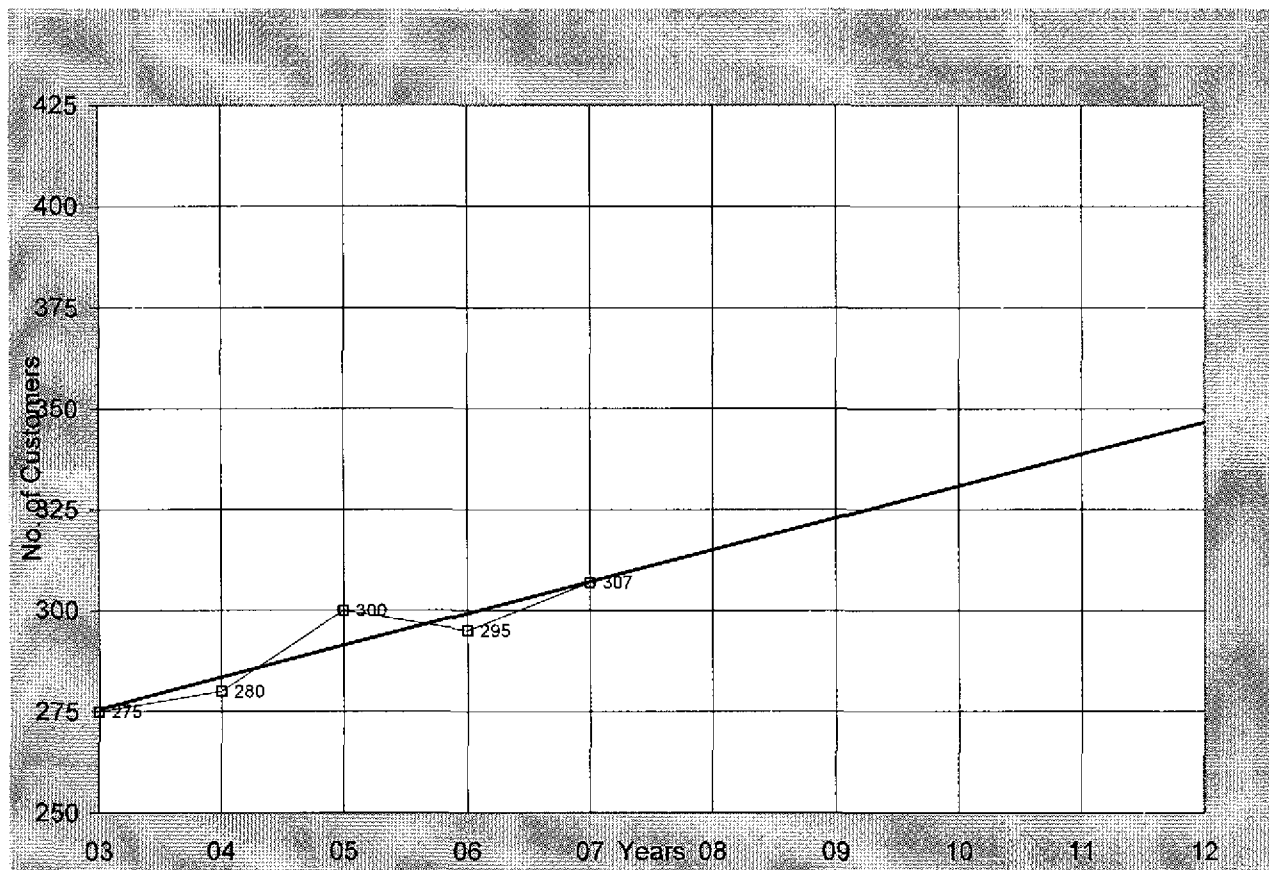
Based on the data provided by the Company, the water system's surface water intake pumps total pumping capacity is 640 GPM and storage capacity is 1,200,000 gallons. The system had 297

customers during the test year of 2007. Staff concludes that the Company's water system pumping and storage capacities are adequate to serve the present customer base and reasonable growth.

#### D. GROWTH

The Company acknowledged discrepancies in number of customers previously reported in Water Use Data in its Annual Reports and explained that reported customer data included vacant, turn-off and collection accounts (instead of the actual customers that used water). Due to the unknown "actual" number of customers, growth projection is based on customer meters data obtained from the Company's Annual Reports. It is projected that the Company could have approximately 350 connections by 2012. Figure 5 depicts actual growth from 2003 to 2007 and provides a projected growth for the next five years using linear regression analysis. Staff recommends that the Company record and report accurate data for number of customers in its future Annual Reports, beginning with the 2008 Annual Report filed in 2009.

Figure 5 Growth Projection



**E. ADEQ COMPLIANCE**Compliance

Arizona Department of Environmental Quality ("ADEQ") regulates the water system under ADEQ Public Water System I.D. #15-497. According to an ADEQ Compliance Status Report, dated June 12, 2009, ADEQ reported no deficiencies and has determined that the Ehrenberg system is currently delivering water that meets the water quality standards required by 40 CFR141/Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$3,199<sup>2</sup> during the test year. Staff has reviewed the Company's testing expense and has recalculated testing costs based on tests required by ADEQ and the Company's responses to Data Requests received on July 15, 2008. Table B below shows Staff's annual water monitoring expense estimate of \$4,690 with participation in the MAP program.

Table B Water Testing Cost

Monitoring	Cost per sample	No. of samples per year	Annual Cost
Total coliform - monthly	\$17	24	\$408
Maximum Residual Disinfection Level ("MRDL")	\$20	24	\$480
E. coli – once every 2 weeks for 12 month <sup>3</sup>	\$30	24	\$720
Misc.: Courier Service	\$20	24	\$480
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$1,219 <sup>4</sup>
Lead & Copper – per 3 years	\$43	10/3-yrs	\$143
D/DBP:			
TTHM-quarterly	\$100	4	\$400
HAA5-quarterly	\$210	4	\$840
Total			\$4,690

<sup>2</sup> Per Company's responses received on September 29, 2008.

<sup>3</sup> Per ADEQ letter dated July 18, 2008

<sup>4</sup> Per MAP invoice for 2008 Calendar Year

**F. ADWR COMPLIANCE**

The Company is not located in an ADWR designated AMA.

According to an ADWR Compliance Status Report, dated June 27, 2008, the Company's water system is in compliance with the reporting requirements of *Arizona Revised Statutes* § 45-341-343. Upon completion of its review of the Company's System Water Plan, which includes a Water Supply Plan, Drought Preparedness Plan and Water Conservation Plan, ADWR will issue documentation stating whether or not the System Water Plan filed meets ADWR requirements.

**G. ACC COMPLIANCE**

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company<sup>5</sup>.

**H. DEPRECIATION RATES**

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table C. Staff recommends that the Company adopt Staff's typical and customary depreciation rates in the accounts listed in Table C on a going-forward basis.

---

<sup>5</sup> Per ACC Compliance status check dated June 17, 2008



TABLE C

## TYPICAL DEPRECIATION RATES FOR WATER COMPANIES

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

## NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

## I. OTHER ISSUES

### 1. Service Line and Meter Installation Charges

Service line and meter charges are refundable advances. The Company has requested changes in its service line and meter installation charges and the requested charges are not within Staff's customary range of charges. The Company has not justified its requested charges. Staff will recommend the upper end of its own customary charges, plus charges for installation of 8-inch service line and meter "At Cost". Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff. Staff recommends that the charges labeled "Staff's Recommendation" in Table D be adopted.

Table D  
Service Line and Meter Installation Charges

Meter Size	Company Current Tariff <sup>6</sup>	Company Proposed Tariff	Staff's Recommendation		
			Service Line Charge	Meter Charge	Total Charge
5/8" x 3/4" Turbine	\$365	\$1,160	\$445	\$155	\$600
3/4" Turbine	\$405	\$1,205	\$445	\$255	\$700
1" Turbine	\$455	\$1,390	\$495	\$315	\$810
1-1/2" Turbine	\$665	\$2,175	\$550	\$525	\$1,075
2"- Turbine	\$1,080	\$2,880	\$830	\$1,045	\$1,875
2"- Compound	\$1,580	\$2,990	\$830	\$1,890	\$2,720
3"- Turbine	\$1,460	\$2,735	\$1,045	\$1,670	\$2,715
3"- Compound	\$2,030	\$3,660	\$1,165	\$2,545	\$3,710
4"- Turbine	\$2,350	\$3,715	\$1,490	\$2,670	\$4,160
4"- Compound	\$2,985	\$5,710	\$1,670	\$3,645	\$5,315
6"-Turbine	\$4,450	\$6,023	\$2,210	\$5,025	\$7,235
6"-Compound	\$5,780	\$10,065	\$2,330	\$6,920	\$9,250
8"-Turbine	\$7,450	\$8,610	At Cost	At Cost	At Cost
8"-Compound	\$9,695	\$16,205	At Cost	At Cost	At Cost

### 2. Curtailment Plan Tariff

Staff has reviewed the curtailment tariff submitted by the Company with its Rate Application and has determined that this tariff generally conforms to the sample tariff found posted

<sup>6</sup> Became effective on November 1, 1996

on the Commission's website. Staff recommends approval of the Company's curtailment tariff in this proceeding.

**3. Backflow Prevention Tariff**

The Company has an approved backflow prevention tariff.